



## **Indonesia Infrastructure 2006**

A World Forum – A National Priority  
Jakarta, 1 – 3 November 2006



### **Private & Public Sector Perspective in Financing Infrastructure Development**

Presented by:

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Minister of State-owned Enterprises – Republic of Indonesia

#### **Agenda**

- ❖ Aligning Macroeconomic Policy
- ❖ Success Story on PLN Bond Issuance
- ❖ Initiative in Supporting Infrastructure Development
  - Indonesia Infrastructure Fund Model
  - Government Support Provision
- ❖ Possible Scheme with Potential Investor
- ❖ Infrastructure Opportunities
- ❖ Development on Privatization Program
- ❖ List of Model Projects
- ❖ Conclusion



## Agenda

### ❖ Aligning Macroeconomic Policy

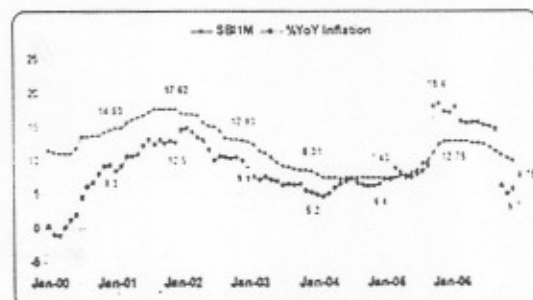
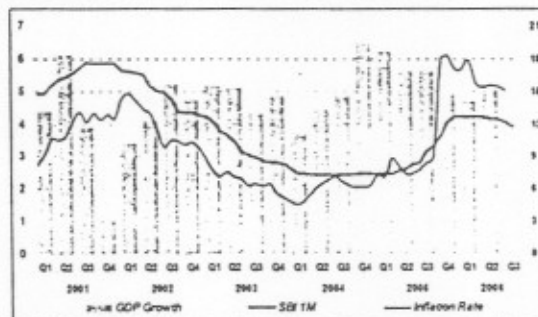
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## The Growing Economy

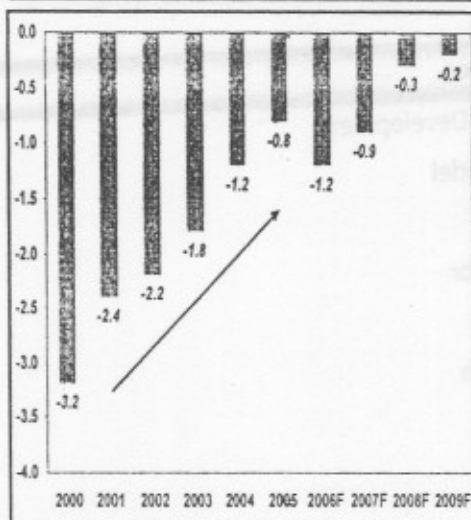
- ❖ Indonesia's GDP Growth in 2005 reached 5.6 percent. It is the highest growth since economic crisis in 1998.
- ❖ Indonesia had quite high inflation figure by the end of 2005, but now the government has managed to control the inflation.
- ❖ The central bank runs its monetary policy by controlling interest rate. Looking forward, the central bank will likely to keep interest low due to easing inflation. And towards, we expect the interest rate will keep falling to single digit.



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## Indonesia's Fiscal and Trade Balance are Improving

### Indonesia's Budget Deficit (% of GDP)

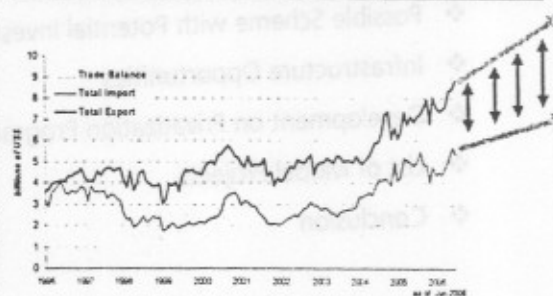


Source: Ministry of Finance

❖ Indonesia's Fiscal Balance is Improving and noting that the trend is still improving and the fiscal balance remains on track.

❖ The improving trade balance will keep our balance of payment healthy, at least for several years to come.

### Trade Balance – Monthly Trends



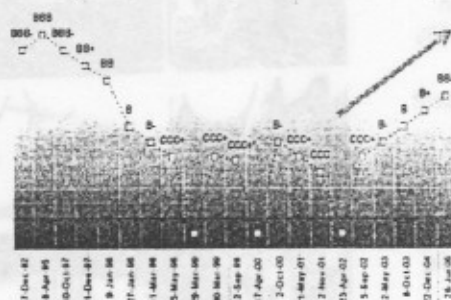
Source: Danareksa Research Institute Jul 06

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## Indonesia Outlook is Perceived as Improving

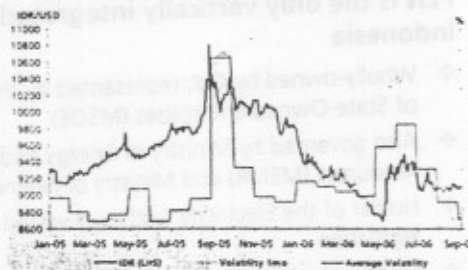
- ❖ Indonesia adopts Free Foreign Capital Policy. There is no restriction for foreign investors in repatriating their capitals.
- ❖ IDR currency exchange rate is relatively stable.

### Sovereign Credit Ratings (S & P)



Source: Danareksa Research Institute, Jul 06

### Foreign Exchange Spot Market Indonesia's



Source: Danareksa Fixed Income Research, Aug 06

- ❖ In July 2006, S&P rated Indonesia's sovereign with BB- stable outlook

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## Company Overview : PLN

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**PLN is the only vertically integrated state-owned utility company in Indonesia**

- ❖ Wholly-owned by Gol, represented by the Ministry of State-Owned Enterprises (MSOE).
- ❖ Also governed by Ministry of Energy and Mineral Resources (MEMR) and Ministry of Finance (MoF)
- ❖ Holder of the Electricity Authority vested by legislation
- ❖ Largest electricity producer with generation capacity of about 21,564 MW, or about 85% market share,
- ❖ Sole purchaser of electricity from Independent Power Producers (IPPs)
- ❖ Monopoly for transmission and distribution (T&D) of electricity
- ❖ Mandated under Presidential Decree no. 71/2006 to implement the Fast Track Program to build 10,000 MW coal-fired generating plants



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## PLN Bonds Issuance 2006

PLN successfully overcame a number of potential problems:

- Debut deal
- No government guarantee or cross default
- Loss making entity
- Large size
- Low absolute yields on Indonesian bonds

### Indicative Terms and Conditions

Issuer	Majapahit Holdings BV	
Guarantor	PT Perusahaan Listrik Negara	
Issue Currency	USD	
Issue Ratings	B1 / BB- (Moody's / S&P)	
Issue Size	US\$250-500mn	US\$250-500mn
Maturity	Tap of 10/17/11	Tap of 10/17/16
Benchmark	4.500 % Sep-11 UST	4.575 % Aug-16 UST
Benchmark Yield	4.729%	4.762%
Indicative Price	100.25 / 100.05	99.96 / 99.61
Indicative Re-offer Spread	246 - 251 bps	300 - 305 bps
Indicative Yield	7.19 - 7.24 %	7.76 - 7.81 %
Note: Indicative levels as of 19 October 2006		

### Select Trading Comparables

Issuer	Rating	Maturity	Coupon (%)	Amount (US\$mn)	Cash Price	Yield (%)	Spread over UST (bps)	Spread over Libor (bps)
Majapahit Holdings BV	B1 / BB-	10/17/2011	7.250	450	100.875	7.038	232	183
Republic of Indonesia	B1 / BB-	03/10/2014	6.750	1,000	102.875	6.256	153	104
Republic of Indonesia	B1 / BB-	04/20/2015	7.250	1,000	105.625	6.381	162	110
Republic of Indonesia	B1 / BB-	01/15/2016	7.500	900	107.250	6.443	168	118
Republic of Indonesia	B1 / BB-	03/09/2017	6.875	1,000	103.125	6.456	170	115
Majapahit Holdings BV	B1 / BB-	10/17/2018	7.750	550	101.000	7.605	285	231
Republic of Indonesia	B1 / BB-	10/12/2035	8.500	1,600	118.625	6.991	210	173



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## Infrastructure Access Indicators

	Electricity	Water	Sanitation	Teledensity	Road Density (population)	Road Density (area)
Afghanistan	5	13	8	12		32
Bangladesh	25	75	48	16	1.6	1594
Cambodia	10	34	16	38	1.1	70
China	97	77	44	424	1.4	189
India	40	86	30	71	3.2	1115
Indonesia	80	78	52	127	1.7	203
Myanmar	55	80	73	8		
Nepal	15	84	27	18	0.6	107
Pakistan	55	90	54	44	1.8	334
Sri Lanka	75	78	91	122	-	-
Vietnam	60	73	41	88	1.2	287

Electricity : % access to electricity network; Water : % access to improved water sources; Sanitation : % access to improved sanitation; Teledensity : telephone subscribers per thousand population; Road density (population) : road km/1000 people; Road density (area): road km/1000 sq km

Source : Estache and Gorcechea (2005)



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## Quality of Infrastructure Services as perceived by the business community

	Electricity	Water	Telephone	Road Services	Port Facilities
Afghanistan	-	-	-	-	-
Bangladesh	2.0	3.8	1.8	3.9	2.2
Cambodia	-	3.0	-	4.2	-
China	4.6	4.9	5.5	4.6	3.8
India	2.7	4.6	5.6	3.3	3.0
Indonesia	3.4	4.8	4.5	4.2	2.9
Myanmar	-	-	-	-	-
Nepal	-	-	-	-	-
Pakistan	-	4.0	-	4.5	-
Sri Lanka	2.9	-	5.4	-	4.9
Vietnam	3.8	-	4.8	-	2.9

1 - worst, 7 - best

Source : Estache and Gorcechea (2005)



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## **Government Support towards Infrastructure**

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- ❖ Supreme Court decision on 16 August 2006 and Government Regulation No. 33/2006 to revise Government Regulation No.14/2005
- ❖ Presidential Decree No.71 on PLN's plan to build 10.000 MW coal-fired power plants and Presidential Decree No.72 on the formation of a team of five Ministers to facilitate coordination of the projects
- ❖ Presidential Decree No.67/2005 which regulates private participation method and procedure in infrastructure projects;
- ❖ Presidential Decree No.42/2005 on KPPI (National Committee for the Acceleration of Infrastructure Provision);
- ❖ Government Regulation No.3/2005 that overrule Government Regulation No.10/1989 on Electricity Power Provision and Utilization, which later amended by Government Regulation No.72/2006;
- ❖ Government Regulation No.16/2005 on Development of Water Provision System;
- ❖ Government Regulation No.36/2005 on Land Provision for Public Utilities Construction which later amended by Presidential Decree No.65/2006;
- ❖ Minister of Finance Decree No.38/PMK.01/2006 on Operational Procedure on Risk Control and Management on Infrastructure Provision



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## **Government Support towards Infrastructure**

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- ❖ Following the establishment of Public Service Body (BLU) to fund infrastructure projects under the Ministry of Finance in October 2006, the Government is ready to realize a bridging fund for toll road projects land clearance.
  - Allocated for land clearance is Rp600bn from APBN-P 2006, to be distributed through Toll road Regulating Body (BJPT) as a BLU.



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## Indonesia Infrastructure Fund Model (Lembaga Pembiayaan Infrastruktur – LPI)

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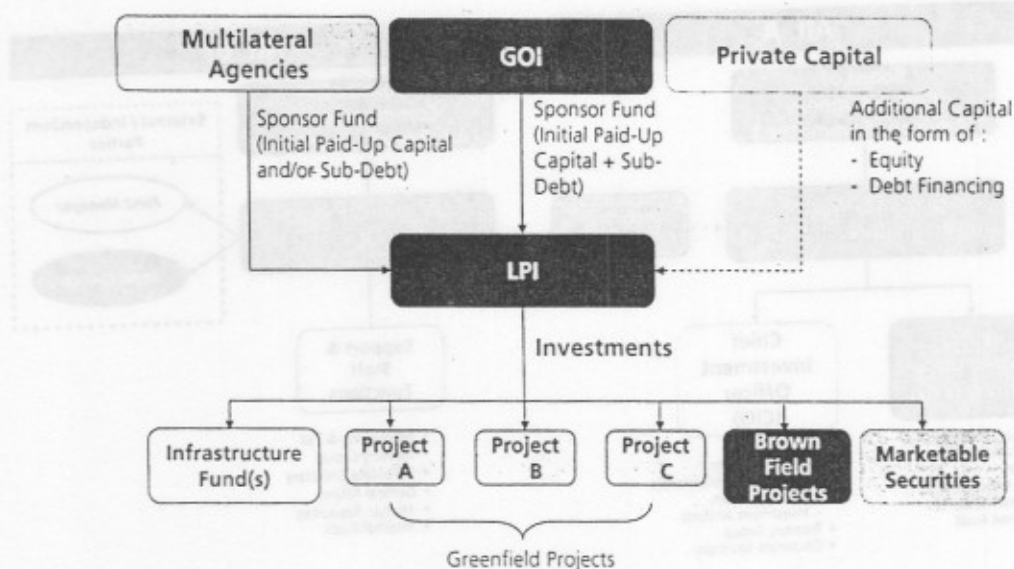
### Risks Associated to Infrastructure Projects:

- ✓ Construction Risks
- ✓ Regulation Risks (eg. Tariff)
- ✓ Business Risks (eg. Volume projections)
- ✓ Political Risks





## LPI – Basic Structure



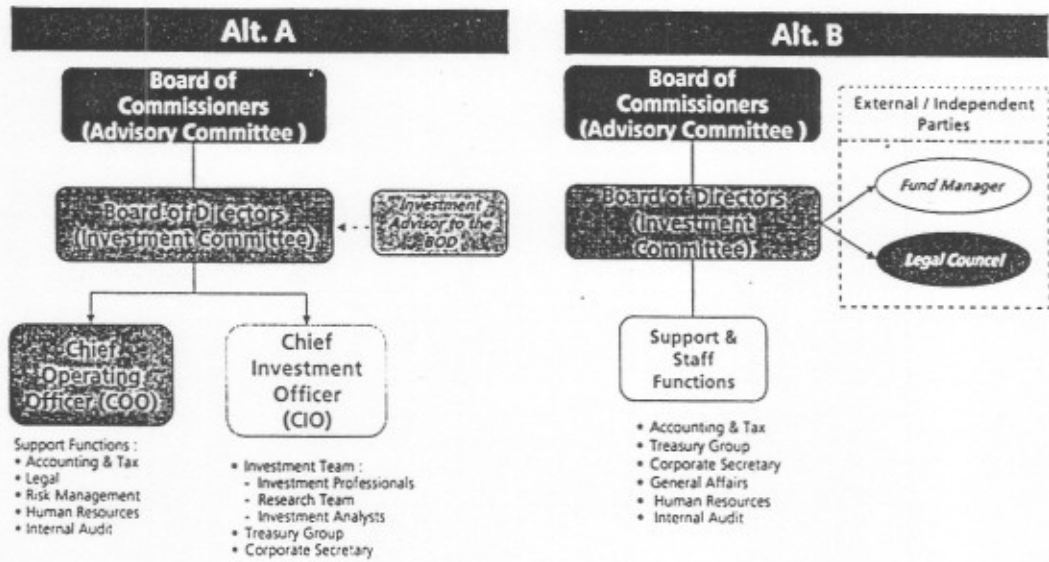
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## Sponsor/Participation Criteria

World Bank	<ul style="list-style-type: none"> <li>- Does not do direct equity participation</li> <li>- Only gives loans to the Gov't, which may then be passed on as sub-debt</li> <li>- May also provide Credit Enhancer</li> <li>- Participation of not more than 20% of total fund/capital</li> <li>- Will play a role as advisor to the Gov't, as well as performing as both, the catalyst and the residual</li> </ul>
IFC	Can do both equity and debt or sub-debt
ADB	Can do both equity and debt or sub-debt
Pension Fund	<ul style="list-style-type: none"> <li>- Can do equity participation in listed shares or private shares of an Indonesian entity</li> <li>- Can do debt participation through listed bond issuances</li> <li>- For investments in unlisted bond issuances, the criterion are: (i) tenor of between 1-10 yrs; (ii) 100% secured by the issuer's assets; (iii) issuer which has booked profit min. in the past 3 yrs</li> </ul>
Insurance	<ul style="list-style-type: none"> <li>- Can do equity participation in listed or private shares</li> <li>- Can do debt participation through bond issuances with ratings of 'A' or better</li> <li>- May invest in marketable securities that are guaranteed by the Gov't or the Central Bank</li> </ul>
Private Capital	<ul style="list-style-type: none"> <li>- Will require credible fund manager</li> <li>- Demand an attractive IRR</li> </ul>

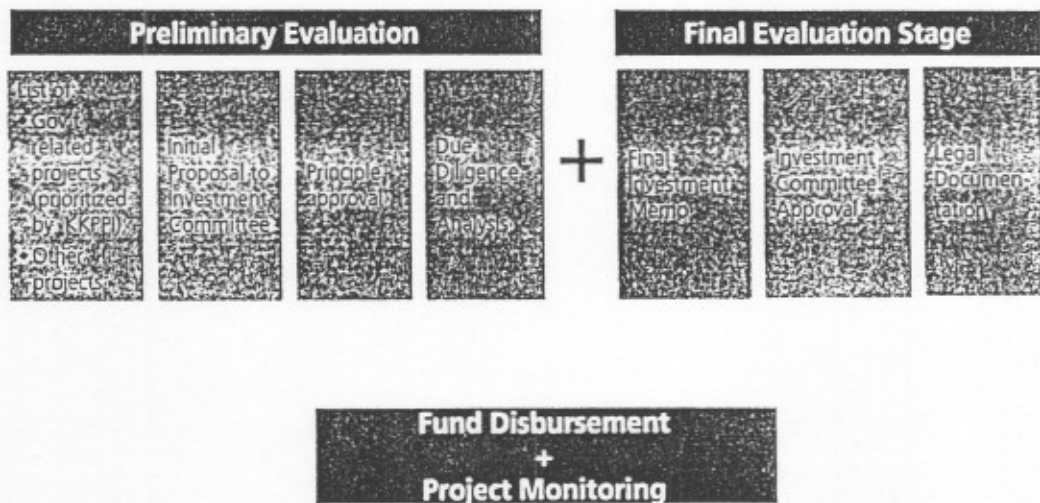
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## Organization Structure Alternatives



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## Investment Process



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## Government Support Provision Model – Risk Management Unit (RMU)

- ❖ Providing Government Support based on principles:
  - Risk should be under the most competent parties' responsibility
  - Risks must be described in the Co-operation Agreement
  - Government Support must deal with Government Budget
- ❖ Recommending forms, terms, and conditions of Government Support. They will stated in:
  - Pre tender document
  - Final Agreement to facilitate financial closure



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## Allowable Forms of Government Support

- ❖ Political Risk → Compensation
- ❖ Demand Risk → Financial compensation and/or other means of compensation
  
- ❖ Government has provided budget of Rp2Tn in year 2006 and Rp2Tn in year 2007
- ❖ The budget will be distributed to Land Revolving Fund, Guarantee Fund, and Infrastructure Fund



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## Procedures of Government Support Provision

Pre-Tender	Tender	Final Implementation	Monitoring
❖ Project Proposal proposed by Line Ministries	❖ Tender document arranged by Line Ministries	❖ Recommendation on forms, terms and conditions of Govt. Support by RMU to Minister of Finance	❖ Reporting of Co-operation Agreement by Line Ministries
❖ Initial evaluation on Govt. Support by KKPP	❖ Tender implementation by Line Ministries	❖ Final approval by Minister of Finance and Line Ministers	❖ Monitoring and Reporting by RMU
❖ Evaluation on Govt. Support feasibility by RMU	❖ Final tender evaluation by RMU	❖ Implementation of Co-operation Agreement by Line Ministries	
❖ Recommendation on forms, terms, and conditions of Govt. Support by RMU			



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## Potential Partnership with Major Investor Investment Authority

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- ❖ Investor interest in investment in Indonesia
- ❖ Both parties agreed on ownership composition of 85% Investor and 15% Indonesia, as long as Investor can exercise control over the investment activities
- ❖ Investment activities will focus on natural resources and infrastructure
- ❖ The investment will be wholly made as equity investment, both through capital markets, private equity or outside of the capital markets, with time horizon of over 15 years





## Agenda

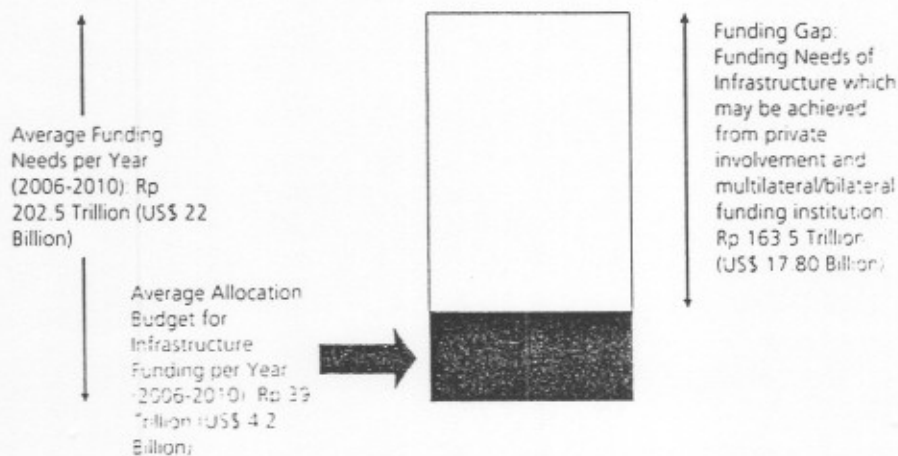
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## Infrastructure Funding Needs

Average Funding Needs per Year (2006-2010):  
Rp 202.5 Trillion (US\$ 22 Billion)

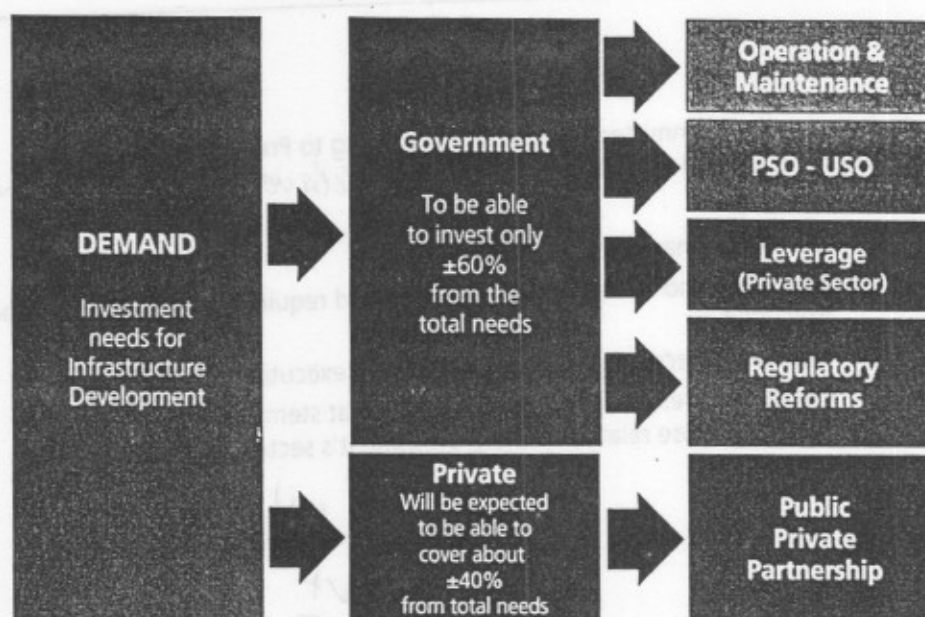


Source: World Bank & Coordinating Ministry for Economy (2006)



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## Investment Allocations



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## Government Support towards Privatization

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- ❖ Privatization Committee was formed according to Presidential Decree No. 18/2006, ratified on October 13. *Subs, relevant other ministers, Sby*

The Committee has three functions:

- Formulate and declare general policies and requirements on privatization execution
- Determine necessary steps to support the execution of privatization
- Discuss and resolve any strategic issues that stem from privatization, including those related to the Government's sectoral policies

*Min SOE will submit candidates for PVT end of the year*



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## Privatization Program

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- ❖ The MSOE continues to pursue privatization of SOEs to provide a source of income for the national budget (APBN) and to promote good corporate governance and public sector efficiency and competitiveness.
- ❖ Recent development of the privatization program:
  - Further privatization of PGN <sup>as a core</sup> awaiting the right momentum
    - Secondary offering of 5.31% ownership of PGN
    - Scheduled for end-of-year 2006
  - IPO of Jasa Marga *- toll road*
    - Targeting Rp1.5-2.0tn issue size
    - Scheduled effective date March 2007
    - Currently doing beauty contest of potential underwriters



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## Privatization Agenda

- ❖ MSOE plans to divest ownership in 14 SOEs and SOE subsidiaries in 2007
- ❖ In addition, the MSOE plans for funds injection to 15 SOEs, including Garuda Indonesia, Mergati Nusantara, and Kertas Kraft Aceh

*which ones?*

*more general  
33 but  
US*

*will  
use to  
cover deficit*

*Sort.  
just bought  
out. Carolig  
needs to come up  
w/ new reg.*



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## List of Model Projects Offered in This Summit

Sector	Projects	Scalability	Total Investment (USD Million)
Toll Road	1. Medan-Kualanamu-Tebing Tinggi Toll Road	60 km	289
	2. Solo-Kertosono Toll Road (East Java)	169 km	842
Water Supply	1. Tangerang Regency Potable Water Services		
	a. Ciledug	350 Vs	13
	b. Benda	350 Vs	25
	c. Ciparen	250 Vs	50
	d. Sepatan	450 Vs	12
	2. Bandung and Sumedang Regencies Water Supply	105 Vs	3.5
	3. Dumai City Water Supply	110 Vs	4
Transportation	1. Margagiri-Ketapang Ferry Terminal		237
	2. Tanjung Perak Harbour Development (Teluk Lamong, East Java)		160
Power Generation	1. Central Java Coal-Fired Power Plant	2 X 600 MW	1,311
	2. Pasuruan Combined Cycle Power Plant (East Java)	1 X 500 MW	555
Telecommunication	1. Palapa Ring	30,000 km	1,600



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## Potential State/Regional Owned Enterprise Partners

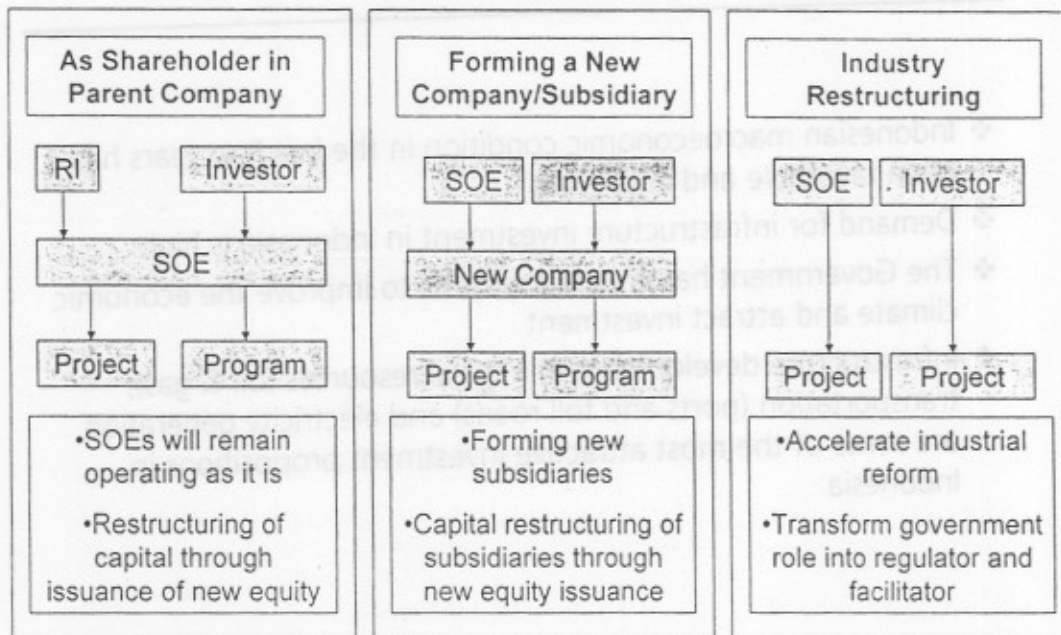
Sector	S/R-OE	Profile
Toll Road	PT Jasa Marga	Jasa Marga is the largest toll road operator in Indonesia, managing operations on almost all toll ways in the country
Water Supply	Perusahaan Daerah Air Minum (PDAM)	PDAM is Regional Government – Owned Enterprise in providing clean water.
Transportation	PT Pelabuhan Indonesia I – IV	<ul style="list-style-type: none"> <li>- Pelindo I operates 25 ports</li> <li>- Pelindo II is the largest port operator in Indonesia with 12 ports including Tanjung Priok in Jakarta – the largest port in Indonesia</li> <li>- Pelindo III operates 43 ports in Central Indonesia including the country's second busiest, Tanjung Perak in Surabaya</li> <li>- Pelindo IV operates 18 ports in eastern Indonesia</li> </ul>
Power Generation	PT Perusahaan Listrik Negara	PLN through several subsidiaries (Pembangkitan Jawa Bali and Indonesia Power), has the largest market share of the country's electricity generation
Telecommunication	PT Telekomunikasi Indonesia, Tbk	Telkom is Indonesia's incumbent domestic telecommunications provider. It and its subsidiaries own and operate Indonesia's largest fixed wire-line, and fixed wireless networks



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## Role of Private Investors in SOE Projects



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## Conclusion

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- ❖ Indonesian macroeconomic condition in the last few years has been favorable and improving
- ❖ Demand for infrastructure investment in Indonesia is high
- ❖ The Government has enacted reforms to improve the economic climate and attract investment
- ❖ Infrastructure development in natural resources (oil & gas), transportation (ports and toll roads) and electricity generation are some of the most attractive investment propositions in Indonesia



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Thank You



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